MINISTRY OF FINANCE

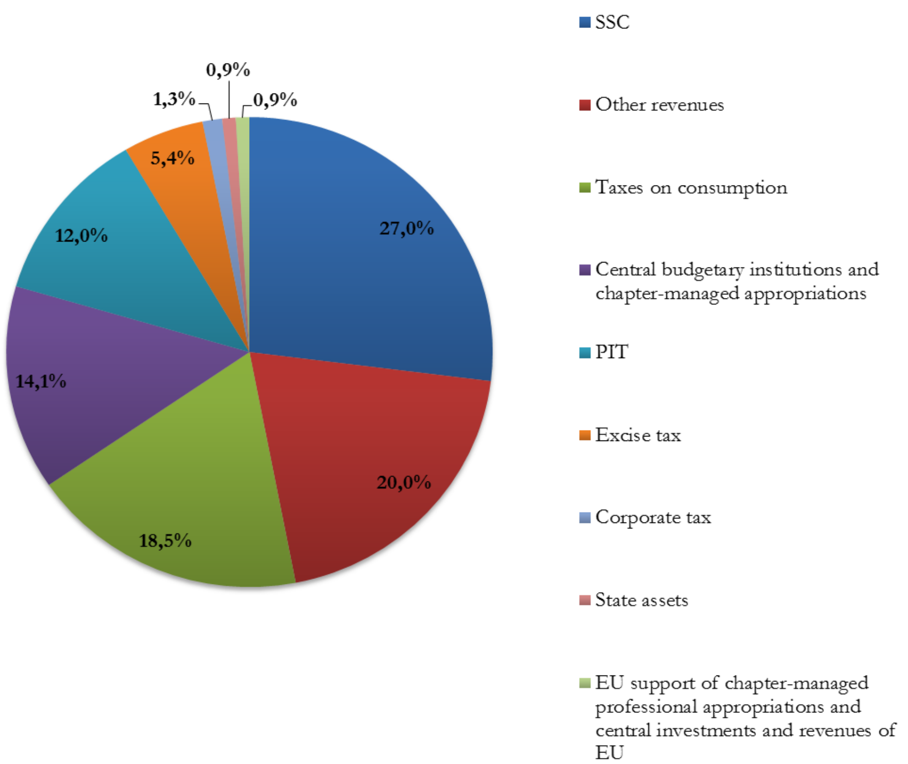
Hungary's public finances are stable and predictable

Thanks to Government measures, positive trends prevalent in public finances over the past months have continued. The Ministry of Finance published a preliminary report of the end-of-May status of the central sub sector of the state budget on 20 June 2018.

The deficit of the central sub sector of the state budget totalled HUF 1 187.5bn (EUR 3.65bn) in the period January-May 2018, mainly as a consequence of the pre-payment of funds for EU-financed projects and rising tax revenues boosted by Government measures. The Government continues to expect economic growth of 4 percent and a budget deficit of 2.4 percent of GDP for the year 2018.

In the observed period, the revenues of the central sub sector of the state budget were similar to the amount accumulated in the same period of the previous year: it was up by 6.8 percent.

Main revenues of the central sub sector, January-May 2018.



Source: Ministry of Finance

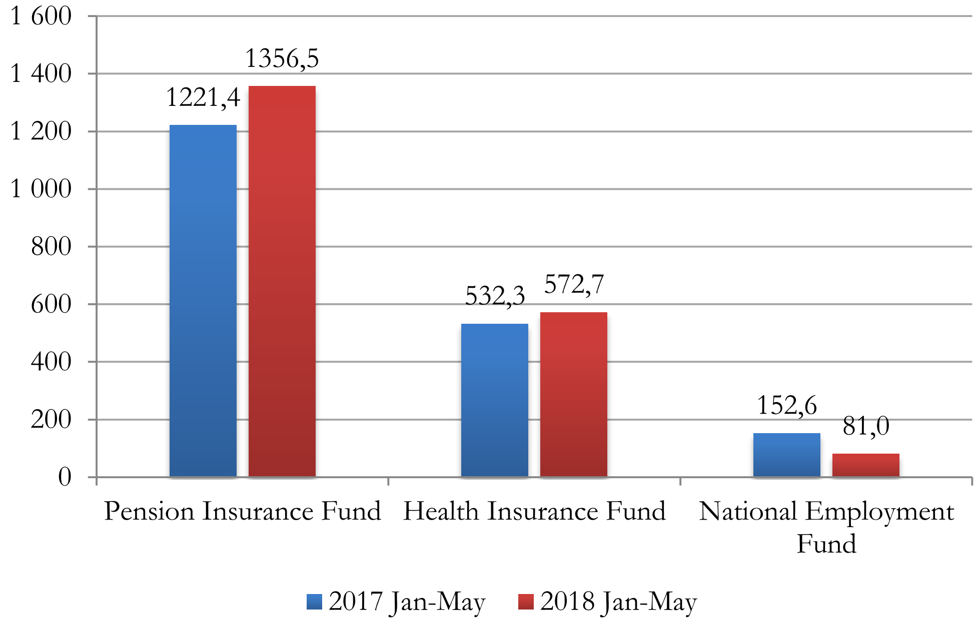
An analysis of the revenues of the central sub sector shows that the largest increases stemmed from value-added tax, personal income tax and pension, healthcare and labour market contributions paid on labour. The revenues of budgetary units were also higher than those of last year.

Up to the end of May 2018, revenues from VAT totalled HUF 1 376.9bn, up by HUF 62bn year-on-year. The amount of both VAT revenues and refunds exceeded the levels registered in 2017; however, revenue inflow increased by HUF 250bn. The growth stemmed from higher VAT revenues related to domestic payments (such as by retail trade and the manufacturing sector), imports and taxes on tobacco products. Revenues from excise taxes were also higher in the period January-May 2018: these increased by HUF 34.9bn year-on-year.

Among revenues from social contribution tax and other contributions, those received by the Pension Insurance Fund were 11.1 percent higher. The growth was attributable on the one hand to the increase of the distribution ratio from 71.61 percent to 79.5 and growth in gross incomes on the other. The latter increase has been facilitated, among other factors, by Government measures aiming to boost wages, such as the hiking of the minimum wage (for unskilled workers) and the guaranteed minimum wage (for skilled workers), as well as the implementation of public sector career models.

The Health Insurance Fund recorded revenue growth of 40.4 percent. By the end of May 2018, the National Employment Fund had registered revenues of HUF 81.0bn.

Revenues from social contribution tax and other contributions, bn HUF



Source: Ministry of Finance

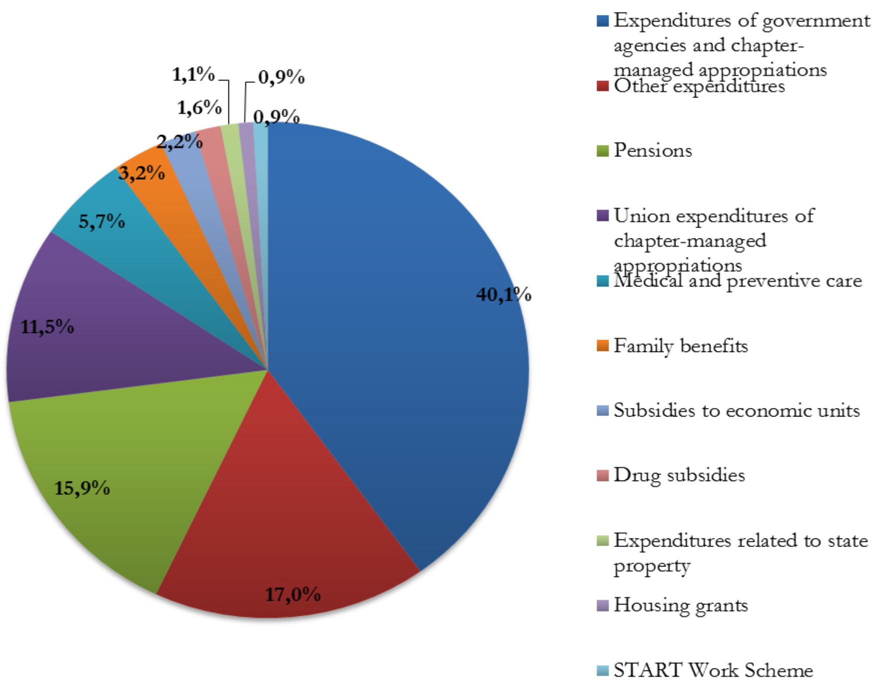
On the other hand, the rising number of jobs and higher wages in real terms has boosted revenue growth from pension-, health insurance and labour market contributions.

In the first five months of the year, expenditures were up by 20.2 percent compared to the same period of the previous year. The main driver of growth was the pre-payment of funds for EU-financed projects, totalling HUF 8 643.5bn, from chapter-managed appropriation allocation fund accounts. The amount of one-off and normative subsidies rose by 27.8 percent, mainly as a result of higher subsidies paid as reimbursement of expenses related to personal public transport and the operation of the railway network.

Expenditures related to housing subsidies increased by HUF 5bn year-on-year, due to higher payments for the Family Housing Subsidy Programme and building society savings.

The largest expenditure with regard to the financing of state assets incurred in the financing of the Start Scheme managed by the National Employment Fund. The National Pension Fund has spent the largest amount, HUF 1 374.2bn, on pensions, including pension hikes and supplements.

Main expenditures of the central sub sector, January-May 2018



Source: Ministry of Finance

In an interview for political daily Magyar Idők, Minister of Finance Mihály Varga said that provided the bill on next year's tax amendments was adopted, administrative burdens would be reduced substantially and several hundreds of billions of forints would be left at families, households and enterprises. The bill leaves a flat personal income tax rate of 15 percent and a corporate income tax of 9 percent, one of the lowest in the EU, unchanged. The focus of the social contribution tax is set to change: it will shift from the protection of existing jobs to the encouragement of potential labour force to land a job and support jobseekers of a certain age (those below the age of 25 years and above 55 years). Provided wage hikes this year hit the levels expected by the six-year wage agreement, the rate of social contribution tax is to be reduced from the current 19.5 percent to 17.5 percent in 2019. In order to prevent higher food prices, VAT on UHT milk is also set to fall from 27 percent to 5 percent as of next year, the Minister announced.